

BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF HAWAII

In the Matter of the Application)

of)

MOLOKAI PUBLIC UTILITIES, INC.)

For review and approval of rate)
increases; revised rate schedules; and)
revised rules.)

) Docket No. 2009-0048
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**MOLOKAI PUBLIC UTILITIES, INC.'S RESPONSES
TO THE DIVISION OF CONSUMER ADVOCACY'S
SUBMISSION OF REBUTTAL INFORMATION REQUESTS**

and

CERTIFICATE OF SERVICE

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PUBLIC UTILITIES
COMMISSION

2010 FEB 24 P 4:30

FILED

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COMES NOW, MOLOKAI PUBLIC UTILITIES, INC., by and through its attorneys,
Moriwara Lau & Fong LLP, hereby submits its Responses to the Division of Consumer
Advocacy's Submission of Rebuttal Information Requests consistent with the Stipulated
Regulatory Schedule (Exhibit "A") approved in the Order Approving Proposed Procedural Order,
as Modified, filed on November 6, 2009.

DATED: Honolulu, Hawaii, February 24, 2010.



MICHAEL H. LAU, ESQ.
YVONNE Y. IZU, ESQ.

Moriwara Lau & Fong LLP
Attorneys for MOLOKAI PUBLIC UTILITIES, INC.

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CA-RIR-1

Ref: MPU-RT-100, page 2.

The Company is asserting that the appropriate benchmark is to use the currently effective rates, which include the temporary increase granted as a result of Docket No. 2008-0115.

- a. On page 9 of the Commission's Order Denying Molokai Public Utilities, Inc.'s Request To Submit Unaudited Financial Statements In Lieu Of Audited Financial Statements, filed on April 2, 2009, the Commission states that, "the rates approved by the commission in Docket No. 2008-0115 constitute a temporary stop-gap measure. Thus, MPU's utilization of the \$6.04 per TG rate as its base usage rate is misleading and improper. Accordingly, MPU's amended application, to be filed in this proceeding, shall reflect any proposed rate increases from its permanent rates approved by the commission in In re Molokai Public Util., Inc., Docket No. 02-0371 ("Docket No. 02-0371"), MPU's last rate case proceeding." Please discuss whether the Company's assertion in rebuttal testimony is consistent with the Commission's Order.

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CA-RIR-1 (cont.)

RESPONSE:

The Company believes that its use of the temporary rates for the sole purpose of determining if there will be rate shock to the customers when rates from this proceeding are implemented is proper and not inconsistent with the Commission's Order. The Company has complied with the Commission's requirement to show the permanent rates and has measured the impact of its requested increase using both the permanent rates and the temporary rates. The term "rate shock" has generally been utilized to describe the impact customers face when utility rates are increased above a certain level from what they are currently paying. The Company believes that the issue of rate shock should be determined using the rates customers are currently paying and have been paying for over a year.

- b. Assuming that the Company contends that the Commission's Order is relevant only to the amended application and not the determination of whether a phase-in is appropriate, please provide authoritative citation to any relevant Commission Decision and Order.

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CA-RIR-1 (cont.)

RESPONSE: That is not the Company's contention. See the response to part "a" above.

- c. Please identify the lowest percentage increase, regardless of the starting point (Docket No. 02-0371 or 2008-0115), on which the Company contends that a phase-in is appropriate. Please provide copies of any appropriate analysis that supports the Company's contention regarding cash flow considerations.

RESPONSE: The Company does not have a position on when a phase-in is appropriate. The Company believes that each case should be reviewed on its own merits.

- d. Please provide a description of the phase-in plan that the Company would support in conjunction with the Company's revised revenue requirement associated with the Company's rebuttal testimony. Please include a copy of any analysis already performed by the Company on bill impact on the various customer classes.

RESPONSE: The Company would continue to support the phase-in proposal included in its initial and revised applications.

SPONSOR: Robert O'Brien

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CA-RIR-2

Ref: MPU-RT-100, pages 6 - 9.

- a. Please discuss whether the Company has any studies, reports or analyses that would support the contention that its current compensation and benefits package is inadequate in comparison to other Hawaii small utility companies. If so, please provide a copy of the applicable study, report, or analysis.

RESPONSE:

The Company, on pages 6 to 9 of the Mr. O'Brien's rebuttal testimony (MPU-RT-100), does not contend that its current compensation and benefits package is inadequate in comparison to other Hawaii small utility companies. The Company has responded to the Consumer Advocate's recommendation to reduce the cost for the benefits provided to its employees by 50 percent because of the economy and the possible impact on some customers. The Company has supported the current level of the compensation package and pointed out that these benefits have been in place for a significant time and that the employees have not had a base pay increase, other than for increased responsibility or certifications. While Mr. O'Brien is aware of some

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CA-RIR-2 (cont.)

compensation levels for other small utilities in Hawaii, he has not prepared any study regarding the comparative levels of compensation and related responsibilities and job requirements.

- b. Please identify any other Hawaii utility company that provides almost complete coverage of all medical and dental plan expenses.

RESPONSE:

The Company will try to contact several of the other Hawaii utility companies to determine what percent of the medical and dental benefits are provided by those companies and will provide that data as soon as Mr. O'Brien receives authorization to release the information.

- c. Without any showing by the Company to justify that its level of compensation, both pay and benefits, are inadequate, please explain why the Commission should allow the current level of the existing benefits coverage to continue beyond the instant rate proceeding.

RESPONSE:

First, as stated in the response to part "a" above, the Company does not contend that the current pay and benefits are inadequate. Second, to the best of the Company's

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CA-RIR-2 (cont.)

knowledge, the compensation policies currently in effect were also in effect when the Company had its last rate case and there were no objections to those procedures at that time. While the pay rates, benefit costs and time charged to MPU have changed, there has been no indication that a change would be required. The Company believes it has acted in good faith with its employees and, if the Commission believes a change should be made, the Company and the employees should be allowed the opportunity to make such changes without the severe penalty proposed by the Consumer Advocate.

SPONSOR: Robert O'Brien

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CA-RIR-3

Ref: MPU-RT-100, pages 14 - 20.

The Company acknowledges that the issue of lost and unaccounted for water was settled in Docket No. 02-0371. Thus, the Company contends that there was no finding of the reasonable level of unaccounted for water for the Company.

- a. Notwithstanding the fact that the Commission did not make a "finding" on the reasonable level of unaccounted for water for the Company in Docket No. 02-0371, please confirm that the Commission: 1) adopted the settled upon amount of 15%, which was an overall number without any of the various adjustments that the Company is proposing in the instant proceeding; 2) the Commission expressed sufficient concerns with the water loss situation to warrant the requirement of quarterly reports on the status of the facilities upgrades that were intended to reduce the water loss; and 3) reporting on any other measures to reduce water loss.

RESPONSE:

The Company confirms the relative accuracy of the statements contained in subparts a.1) and a.2) above. With respect to subpart a.3 above, Ordering Paragraph 6 of Decision and Order No. 20342, filed on July 18, 2003 in

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CA-RIR-3 (cont.)

Docket No. 02-0371 required the Company to include in its quarterly reports information on any "other steps implemented by MPUI to reduce the amount of water loss and further upgrade its water system".

- b. Please confirm that, while the Company may need to contractually "leave" water under the MIS operating agreement and additional water may be required as part of the backwash process, the Company understands that the Consumer Advocate's position that the use of the MIS results in wasted water and inefficient operations since well water is being mixed with irrigation water and then treated again.

RESPONSE:

The Company does not understand the Consumer Advocate's position regarding the use of MIS and penalties that should be imposed on the Company. The Consumer Advocate, on one hand, has acknowledged that the MIS is the only option available to the Company to provide water to its customers and has allowed the recovery of the monthly charge for the use of those facilities, but at the same time disallows the retention requirement included in the same

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CA-RIR-3 (cont.)

contract. As noted in MPU's response to CA-RIR-4 below, the reason the Company does not presently have any other options (other than using the MIS) is because the DHHL has refused to consent to the Company's plan to install a larger pipeline through the existing easement area. Notwithstanding the fact that DHHL refused to consent to the Company's request, even if the DHHL did consent to the installation of the pipeline through its lands, there is the additional cost of installing such pipeline, as well as the cost of a closed storage reservoir (and any associated chlorination facilities) that would be required to be installed in order to provide the potable water to the MPU service area.

c. Please provide any authoritative citations that would support the overall difference in the water pumped and the water delivered as being reasonable and/or acceptable based on other recent decisions and orders by this Commission.

RESPONSE:

The Company does not understand the nature of the above request. The Company does not know of any other water utility that is required to use a governmental transportation

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CA-RIR-3 (cont.)

system (MIS) under the terms and conditions required of the Company including the ten percent retention. In addition, the Company has improved its treatment process and the water loss has decreased at that facility. The Company is aware that a ten percent lost and unaccounted for percentage is used by many small and medium size water companies. The Company is proposing to use that same percentage for its lost and unaccounted for water. The Company contends that the ten percent retention required under the contract with MIS and the water used for the new backwash process are not lost or unaccounted for, but can be measured and are required for the safe and reliable operation of the Company.

- d. Please identify all other plant improvements and/or measures identified and considered by the Company in order to address the water loss situation.

RESPONSE:

Please refer to the responses and attachments provided by the Company in response to CA-IR-5, CA-IR-6, and CA-IR-7.

1. For each of the identified plant items or measures, please provide the following:

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CA-RIR-3 (cont.)

- (a) Description of the item including its function and how it would decrease the water loss both in terms of quantification and manner of how the water loss is achieved;

RESPONSE: Please see response to CA-RIR-3.d above.

- (b) Provide an estimate of the cost to construct, procure or implement the item or measure;

RESPONSE: Please see response to CA-RIR-3.d above.

- (c) Reasons why the item or measure has not already been implemented.

RESPONSE: Please see response to CA-RIR-3.d above.

- 2. If the Company has not identified any other plant item or measure that could reduce or eliminate the historical water losses, including those associated with the MIS and the backwash process, please explain why not.

RESPONSE: Not applicable, see response to CA-RIR-3.d above.

SPONSOR: Robert O'Brien

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CA-RIR-4

Ref: MPU-RT-100, pages 14 – 20.

In Docket No. 02-0371, the Company asserted that it was going to build new transmission lines and/or facilities to address the issue of water loss. For example, see the discussion in the Stipulation of Settlement Agreement in Lieu of Evidentiary Hearing filed on May 23, 2003 in Docket No. 02-0371, page 11.

RESPONSE:

As set forth in the Company's response to CA-IR-6d, Attachment CA-IR-6d, as well as the Company's quarterly reports filed with the Commission pursuant to Ordering Paragraph 6 in Decision and Order No. 20342 filed on July 18, 2003 in Docket No. 02-0371, the Company was unable to complete the installation of the entire transmission line for the project which would have allowed it to bypass the MIS and eliminate the water treatment plant and the resulting backwash process.

- a. Please discuss whether the Company was intending to follow a more comprehensive plan and/or install additional plant facilities to address the water loss issue or whether its intent was to install plant facilities to only reduce the water loss to an overall factor of 27.1% as shown on MPU-R-6 in the instant proceeding.

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CA-RIR-4 (cont.)

RESPONSE:

The Company does not fully understand the question. However, the Company can state that it was the Company's intent, with the new transmission line to eliminate the use of MIS and the backwash process. The Company did not identify any other potential water losses that would be impacted by the installation of the new transmission line, which as explained above was not completed due to the DHHL's refusal to consent to the installation of the new transmission line in the easement.

- b. If the Company did not anticipate eliminating the backwash and MIS requirements as a result of its new transmission facilities, please discuss and quantify the projected decrease in the water loss that the Company anticipated at the time of its investment decision. Please provide copies of any reports, studies, and/or analyses that the Company had conducted to justify the plant investment decisions.

RESPONSE:

As stated in the response above, the Company did plan to eliminate the backwash and MIS requirements with the new transmission line. The Company did not make any other water loss reduction estimates at the time of the investment

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CA-RIR-4 (cont.)

decision, which as discussed was not pursued due to the inability to obtain the DHHL's required consent to the installation of the new pipeline in the easements.

SPONSOR: Robert O'Brien

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CA-RIR-5

Ref: MPU-RT-100, pages 27 – 32.

a. The Company contends that "the Consumer Advocate's information requests seemed to be higher than the other cases." (emphasis added)

1. Did the Company perform any analysis to arrive at this conclusion?

RESPONSE:

The Company did not perform such an analysis.

2. If so, please identify the other cases considered and provide a copy of that analysis.

RESPONSE:

Not applicable, see response to CA-RIR-5.a.1 above.

b. Please identify the hours recorded by the Company's regulatory and legal outside services vendors for the discovery phase. In addition, assuming that the detail is available, please further provide a descriptive classification for the hours incurred separately by the legal and regulatory vendors by function, such as drafting responses, conducting analyses, researching, reviewing drafts, etc.

RESPONSE:

The Company will provide the requested details no later than Monday, March 1, 2010. See also MPU's response to WMA-IR-MPRT-114.

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CA-RIR-5 (cont.)

SPONSOR: Robert O'Brien

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CA-RIR-6

Ref: MPU-RT-100, page 33.

The Company acknowledges that the Consumer Advocate contends that certain portions of plant might be excess capacity, but indicates that there is no assertion that the plant is not used or useful in providing service to customers.

- a. Please discuss whether it is the Company's understanding that the Commission's standard is whether plant is "used and useful" or "used or useful." Please provide any authoritative citations.

RESPONSE:

*The Company does not understand the relevancy of the Consumer Advocate's question. However, without waiving any objection thereto, the Company notes that under HRS § 269-16(b)(3), the statute utilizes the phrase "property actually **used or useful** for public utility purposes" (emphasis added).*

- b. Is it the Company's assertion that all of the plant currently existing is necessary to serve the currently existing customer base?

RESPONSE:

No, that is not the Company's assertion. In any water or sewer utility operation, engineering, fire flow, and operational

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CA-RIR-6 (cont.)

reasons require the utility to have sufficient reserves beyond what is required to serve the "currently existing customer base".

1. If so, please confirm that there is no additional capacity in the existing plant to serve any future incremental or additional demand. Please provide a copy of the report or analysis that supports the Company's response.

RESPONSE:

Not applicable, see responses to part "a" and "b" above.

2. If the Company is asserting that there is no additional available capacity, please discuss how the Company plans to serve any future additional load.

RESPONSE:

No, that is not the Company's assertion.

- c. If it is the Company's assertion that there is capacity that could be used to serve future loads, but, rather than recovering the costs for that capacity from those future customers, the Company is recommending that the existing customers should be required to pay for capacity unrelated to their demands, please provide any authoritative citations

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CA-RIR-6 (cont.)

that explicitly supports the conclusion that such an expectation is reasonable.

RESPONSE:

No, that is not the Company's assertion.

1. If the Company acknowledges that there is existing capacity that was used to previously serve customer demand but is now available, please identify that existing capacity and provide a copy of any analysis or study that supports the Company's response.

RESPONSE:

The Company acknowledges that there is existing capacity that was required to provide service to customers for a number of years that are not customers at this time. The Company has made no calculations of the capacity that was required to serve those customers. However, because of the lateness of this request and the Company's desire to focus on the remaining items set forth in the Stipulated Regulatory Schedule (Exhibit A) attached to the Order Approving Proposed Procedural Order, As Amended, issued by the Commission on November 6, 2009, to

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CA-RIR-6 (cont.)

the extent that the Company is able to research the matter and prepare the calculations,

2. If not already provided, please provide the following:

(a) Total plant capacity, both peak and average.

If this information is available by major plant function, such detail would be preferable.

RESPONSE:

The design capacity for the plant is 1.5 million gallons per day. Unlike wastewater treatment plants which are designed for peak and average day flows, there is no comparable equivalent for the water treatment system since the Company has the 400,000 gallon "clean water" storage reservoir.

(b) Recorded monthly peak usage for each of the past three years. If this information is available by major plant function, such detail would be preferable.

RESPONSE:

The Company is presently researching this matter to determine whether such records are

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CA-RIR-6 (cont.)

available and will provide a response no later than Monday, March 1, 2010.

- (c) Recorded monthly peak and average usage by customer class and meter size for each of the past three years.

RESPONSE:

This requested information is not available since the Company's recordkeeping does not include peak and average usage by customer class and meter size.

- (d) Industry standard values for the expected average and peak usage per type of customer in the Company's service territory.

RESPONSE:

The Company does not have the requested industry standard values and therefore cannot provide them in response to this information request.

- d. Please confirm that requiring the existing customer base to pay for all fixed and variable costs will result in a higher utility rate for the remaining customers as compared to the costs that are attributable to those customers. If the Company

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CA-RIR-6 (cont.)

disagrees, please provide a copy of the analysis or study that supports the Company's position.

RESPONSE:

The Company agrees that the remaining customers will have higher utility bills because the plant that was required to serve the customers, some of whom are no longer users, will be recovered from fewer customers and over smaller usage amounts. The Company also believes that not recovering the total costs to serve for plant that was required to provide service will severely penalize the Company for results that it did not cause and would deny the Company an opportunity to recover its costs incurred to provide utility service.

- e. If the Company agrees that utility rates designed to recover fully embedded costs from the remaining customer base will be higher because the remaining customers are being burdened with all fixed and variable costs, even those not attributable to capacity required by the existing customer base, does the Company also agree that the higher rates might cause one or more of the following:
 - 1. Customers leave the system due to excessive utility rates;

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CA-RIR-6 (cont.)

RESPONSE: That is always a possibility. However, since a customer has few viable alternatives (purchasing bottled water, installing catchment system, etc.), the customer would likely move from the service territory before actually disconnecting service from the Company.

2. Greater levels of uncollectible expense or bad debts on a short and/or long term basis; or

RESPONSE: That is a possibility

3. Customers will be required to modify their lifestyles to allocate a greater portion of their monthly income towards water utility bills.

RESPONSE: That is a possibility

- f. Assuming that the Company agrees with any of the three possible conditions that might occur, please describe what, if any, solutions the Company would propose to mitigate the adverse impacts on its customers.

RESPONSE: There are no good solutions, based on the form of the questions. The major alternative which would not penalize the Company further, would be for the government agencies

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CA-RIR-6 (cont.)

to come to the aid of its residents and taxpayers to provide assistance which could be in the form of funds for paying the utility bills .other subsidies to the utility to reduce the costs that need to recovered from customers. For example, the utility could be exempted from the revenue taxes and other fees during this period. There are probably additional solutions such as customers forming a cooperative and operating the utility. While this would require the utility to be compensated for its investment, the cooperative should be able to obtain governmental support for that activity and set its own service conditions, subject to the Commission regulations and local, state and Federal laws.

SPONSOR: Robert O'Brien

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CA-RIR-7

Ref: MPUT-RT-100, pages 44 – 45.

The Company indicates that a time and motion study is not needed.

- a. Given the recent procedural and accounting changes and the significant effects it had on the recorded utility expenses, what evidence can the Company provide to support the contention that all recorded costs are: 1) correctly attributable to the utility company; and 2) reflects a reasonable amount of time associated with the various labor hours associated with the tasks required to operate and maintain the Company's facilities? Please provide copies of any relevant documents that support the Company's assertions.

RESPONSE:

The Company has provided copies of actual employee time reports for several periods in response to information requests and contends that those time reports reflect that actual time spent by employees on the Company's activities. (see response and confidential attachments to CA-IR-31a). In addition the Company has noted, in response to several information requests that it has received no complaints from

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CA-RIR-7 (cont.)

customers for poor service or for failing machinery, plant or equipment that were not addressed in an expedient manner.

- b. If the Company cannot provide substantive evidence regarding the reasonableness of the time and expenses that are being recorded by the Companies and a time and motion study is not appropriate or required, please identify the means by which the Company could meet its burden of proof if the Commission was inclined to investigate this matter.

RESPONSE:

The Company believes, with only the substantive evidence discussed in response to part "a" above, that it is being reasonable in its activities and does not need to spend what would be substantial amounts of money and substantial amounts of time (for the size of the utility) to have an expert conduct a detailed time and motion study to confirm the Company's belief. If the Commission believes that the Company and its customers should pay for such a study, the Company will cooperate as the Commission directs.

- c. Assuming that the Company contends that the audit of its financial statements performed by KPMG LLC provides some support that could be used by the Commission, please

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CA-RIR-7 (cont.)

provide a copy of the engagement letter and/or any other communications between the Company and KPMG that clearly indicates that KPMG was tasked to evaluate and test whether the reported time and expenses are correctly recorded and attributable to the utility company as well as evaluating the reasonableness of the time spent on various tasks.

RESPONSE: Please see Attachment CA-RIR-7c.

SPONSOR: Robert O'Brien

**ATTACHMENT
CA-RIR-7c**



KPMG LLP
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May 4, 2009

Mr. Peter A. Nicholas
President
Wai'ola O Molokai
Molokai Public Utilities, Inc.
119 Merchant Street
Suite 408
Honolulu, Hawaii 96813

Dear Mr. Nicholas:

This letter (the Engagement Letter) confirms our understanding of our engagement to provide professional services to Wai'ola O Molokai and Molokai Public Utilities, Inc. (the Companies).

Objectives and Limitations of Services

Audit Services

We will issue a written report upon our audits of the Companies' financial statements as set forth in Appendix I.

We have the responsibility to conduct and will conduct the audit of the financial statements in accordance with auditing standards generally accepted in the United States of America, with the objective of expressing an opinion as to whether the presentation of the financial statements, taken as a whole, conforms with U.S. generally accepted accounting principles.

In conducting the audit, we will perform tests of the accounting records and such other procedures, as we consider necessary in the circumstances, to provide a reasonable basis for our opinion on the financial statements. We also will assess the accounting principles used and significant estimates made by management, and evaluate the overall financial statement presentation.

Our audit of the financial statements is planned and performed to obtain reasonable, but not absolute, assurance about whether the financial statements are free of material misstatement, whether caused by error or fraud. Absolute assurance is not attainable because of the nature of audit evidence and the characteristics of fraud. Therefore, there is a risk that material errors, fraud (including fraud that may be an illegal act), and other illegal acts may exist and not be detected by an audit of financial statements performed in accordance with the auditing standards generally accepted in the United States of America. Also, an audit is not designed to detect matters that are immaterial to the financial statements.



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Our report will be addressed to the board of directors of the Companies. We cannot provide assurance that an unqualified opinion will be rendered. Circumstances may arise in which it is necessary for us to modify our reports or withdraw from the engagement.

While our report may be sent to the Companies electronically for your convenience, only the hard copy report is to be relied upon as our work product.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we will consider the Companies' internal control in order to determine the nature, timing, and extent of our audit procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on internal control.

The objective of our audit of the financial statements is not to report on the Companies' internal control and we are not obligated to search for material weaknesses or significant deficiencies as part of our audit of the financial statements. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Registration Statements and Other Offering Documents

Should the Companies wish to include or incorporate by reference these financial statements and our audit report(s) thereon into a future filing under the Securities Act of 1933, or an exempt offering, prior to our consenting to include or incorporate by reference our report(s) on such financial statements, we would consider our consent to the inclusion of our report and the terms thereof at that time. We will be required to perform procedures as required by the standards of the Public Company Accounting Oversight Board, including, but not limited to, reading other information incorporated by reference in the registration statement or other offering document and performing subsequent event procedures. Our reading of the other information included or incorporated by reference in the offering document will consider whether such information, or the manner of its presentation, is materially inconsistent with information, or the manner of its presentation, appearing in the financial statements. However, we will not perform procedures to corroborate such other information (including forward-looking statements). The specific terms of our future services with respect to future filings or other offering documents will be determined at the time the services are to be performed.

Our Responsibility to Communicate with the Board of Directors

While the objective of our audit of the financial statements is not to report on the Companies' internal control and we are not obligated to search for significant deficiencies or material weaknesses as part of our audit of the financial statements, we will communicate, in writing,



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significant deficiencies or material weaknesses to the board of directors to the extent they come to our attention.

We will report to the board of directors, in writing, the following matters:

- Corrected misstatements arising from the audit that could, in our judgment, either individually or in the aggregate, have a significant effect on the Companies' financial reporting process. In this context, corrected misstatements are proposed corrections of the financial statements that were recorded by management and, in our judgment, may not have been detected except through the auditing procedures performed.
- Uncorrected misstatements aggregated during the current engagement and pertaining to the latest period presented that were determined by management to be immaterial, both individually and in the aggregate.
- Any disagreements with management or other significant difficulties encountered in performance of our audit.
- Other matters required to be communicated by auditing standards generally accepted in the United States of America.

We will also read minutes, if any, of board of directors meetings for consistency with our understanding of the communications made to the board of directors and determine that the board of directors has received copies of all material written communications between ourselves and management. We will also determine that the board of directors has been informed of i) the initial selection of, or the reasons for any change in, significant accounting policies or their application during the period under audit, ii) the methods used by management to account for significant unusual transactions, and iii) the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

To the extent that they come to our attention, we will inform the appropriate level of management about any illegal acts, unless they are clearly inconsequential, material errors in the financial statements and any instances of fraud. Further, to the extent they come to our attention, we also will communicate directly to the board of directors illegal acts that come to our attention, unless they are clearly inconsequential, material errors in the financial statements and any instances of fraud that involve senior management or that, in our judgment, cause a material misstatement of the financial statements.

If, during the performance of our audit procedures, circumstances arise which make it necessary to modify our report or withdraw from the engagement, we will communicate to the board of directors our reasons for withdrawal.

Management Responsibilities

The management of the Companies is responsible for the fair presentation, in accordance with U.S. generally accepted accounting principles, of the financial statements and all representations



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contained therein. Management also is responsible for identifying and ensuring that the Companies complies with laws and regulations applicable to its activities, and for informing us of any known material violations of such laws and regulations. Management also is responsible for preventing and detecting fraud, including the design and implementation of programs and controls to prevent and detect fraud, for adopting sound accounting policies, and for establishing and maintaining effective internal controls and procedures for financial reporting to maintain the reliability of the financial statements and to provide reasonable assurance against the possibility of misstatements that are material to the financial statements. Management is also responsible for informing us, of which it has knowledge, of all significant deficiencies or material weaknesses in the design or operation of such controls. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities.

Management of the Companies also agrees that all records, documentation, and information we request in connection with our audit will be made available to us, that all material information will be disclosed to us, and that we will have the full cooperation of the Companies' personnel. As required by the auditing standards generally accepted in the United States of America, we will make specific inquiries of management about the representations embodied in the financial statements and the effectiveness of internal control, and obtain a representation letter from management about these matters. The responses to our inquiries, the written representations, and the results of audit tests, among other things, comprise the evidential matter we will rely upon in forming an opinion on the financial statements.

Management is responsible for adjusting the financial statements to correct material misstatements and for affirming to us in the representation letter that the effects of any uncorrected misstatements aggregated by us during the current engagement and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the financial statements being reported upon taken as a whole. Because of the importance of management's representations to the effective performance of our services, the Companies will release KPMG LLP (KPMG) and its personnel from any claims, liabilities, costs, and expenses relating to our services under this letter attributable to any known misrepresentations in the representation letter referred to above.

Dispute Resolution

Any dispute or claim arising out of or relating to this Engagement Letter or the services provided hereunder, or any other audit or attest services provided by or on behalf of KPMG or any of its subcontractors or agents to the Companies or at its request, shall be submitted first to non-binding mediation (unless either party elects to forego mediation by initiating a written request for arbitration) and if mediation is not successful within 90 days after the issuance by one of the parties of a request for mediation then to binding arbitration in accordance with the Rules for Non-Administered Arbitration of the International Institute for Conflict Prevention and Resolution then in effect ("CPR Arbitration Rules"). Any issue concerning the extent to which any dispute is subject to arbitration, or any dispute concerning the applicability, interpretation, or



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enforceability of these dispute resolution procedures, including any contention that all or part of these procedures is invalid or unenforceable, shall be governed by the Federal Arbitration Act and resolved by the arbitrators. By operation of this provision, the parties agree to forego litigation over such disputes in any court of competent jurisdiction.

Mediation, if selected, may take place at a location to be designated by the parties using Mediation Procedures of the International Institute for Conflict Prevention and Resolution, with the exception of paragraph 2 (Selecting the Mediator). Arbitration shall take place in Honolulu, Hawaii. The arbitration panel shall have no power to award non-monetary or equitable relief of any sort except as provided in CPR Rule 13 (Interim Measures of Protection). Damages that are inconsistent with any applicable agreement between the parties, that are punitive in nature, or that are not measured by the prevailing party's actual damages shall be unavailable in arbitration or any other forum. In no event, even if any other portion of these provisions is held to be invalid or unenforceable, shall the arbitration panel have power to make an award or impose a remedy that could not be made or imposed by a court deciding the matter in the same jurisdiction.

Either party may seek to enforce any written agreement reached by the parties during mediation, or to confirm and enforce any final award entered in arbitration, in any court of competent jurisdiction. Notwithstanding the agreement to such procedures, either party may seek equitable relief to enforce its rights in any court of competent jurisdiction.

Other Matters

This letter shall serve as the Companies' authorization for the use of e-mail and other electronic methods to transmit and receive information, including confidential information, between KPMG and the Companies and between KPMG and outside specialists or other entities engaged by either KPMG or the Companies. The Companies acknowledge that e-mail travels over the public Internet, which is not a secure means of communication and, thus, confidentiality of the transmitted information could be compromised through no fault of KPMG. KPMG will employ commercially reasonable efforts and take appropriate precautions to protect the privacy and confidentiality of transmitted information.

Further, for purposes of the services described in this letter only, the Companies hereby grants to KPMG a limited, revocable, non-exclusive, non-transferable, paid-up and royalty-free license, without right of sublicense, to use all names, logos, trademarks and service marks of the Companies solely for presentations or reports to the Companies or for internal KPMG presentations and intranet sites.

KPMG is a limited liability partnership comprising both certified public accountants and certain principals who are not licensed as certified public accountants. Such principals may participate in the engagements to provide the services described in this letter.



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The work papers for this engagement are the property of KPMG. In the event KPMG is requested pursuant to subpoena or other legal process to produce its documents relating to this engagement for the Companies in judicial or administrative proceedings to which KPMG is not a party, the Companies shall reimburse KPMG at standard billing rates for its professional time and expenses, including reasonable attorney's fees, incurred in responding to such requests.

KPMG member firms located outside the United States and other third-party service providers operating under our supervision may also participate in providing the services described in this letter.

The Companies agree to provide prompt notification if the Companies or any of its subsidiaries or affiliates currently are or become subject to the laws of a foreign jurisdiction that require regulation of any securities issued by the Companies or such subsidiary or affiliate that would result in KPMG becoming subject to registration in such jurisdiction.

Reports and Fees for Services

Appendix I to this letter lists the reports we will issue as part of this engagement and our fees for professional services to be performed per this letter.

In addition, fees for any special audit-related projects, such as research and/or consultation on special business or financial issues, will be billed separately from the audit fees for professional services set forth in Appendix I and may be subject to written arrangements supplemental to those in this letter.

* * * * *

Our engagement herein is for the provision of annual audit services for the financial statements and for the periods described in Appendix I, and it is understood that such services are provided as a single engagement. Pursuant to our arrangement as reflected in this letter, we will provide the services set forth in Appendix I as a single engagement for each of the Companies' subsequent fiscal years until either the board of directors or we terminate this agreement, or mutually agree to the modification of its terms. The fees for each subsequent year will be annually subject to negotiation and approval by the management of the Companies.



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We shall be pleased to discuss this letter with you at any time. For your convenience in confirming these arrangements, we enclose a copy of this letter. Please sign and return it to us.

Very truly yours,

KPMG LLP

A handwritten signature in black ink, appearing to read "G. Ciano", with a long horizontal line extending to the right.

Gordon D. Ciano
Partner

ACCEPTED:

WAI'OLA O MOLOKAI
MOLOKAI PUBLIC UTILITIES, INC.

Authorized Signature

Title

Date

Appendix I

Fees for Services

Based upon our discussions with and representations of you, Mr. Daniel Orodener, and Ms. Elaine Hammond, our fees for services we will perform are estimated as follows:

<i>Audit of financial statements of Wai'ola O Molokai and Molokai Public Utilities, Inc. as of and for the year ended December 31, 2008</i>	\$ 40,000 - \$45,000
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We anticipate providing you with a draft of the financial statements on May 26, 2009.

The above estimates are based on the level of experience of the individuals who will perform the services. In addition, out-of-pocket expenses, such as Hawaii general excise tax are billed for reimbursement as incurred. Circumstances encountered during the performance of these services that warrant additional time or expense could cause us to be unable to deliver them within the above estimates. We will endeavor to notify you of any such circumstances as they are assessed.

Where KPMG is reimbursed for expenses, it is KPMG's policy to bill clients the amount incurred at the time the good or service is purchased. If KPMG subsequently receives a volume rebate or other incentive payment from a vendor relating to such expenses, KPMG does not credit such payment to the client. Instead, KPMG applies such payments to reduce its overhead costs, which costs are taken into account in determining KPMG's standard billing rates and certain transaction charges which may be charged to clients.

**MOLOKAI PUBLIC UTILITIES, INC.'S RESPONSES
TO THE DIVISION OF CONSUMER ADVOCACY'S
SUBMISSION OF REBUTTAL INFORMATION REQUESTS**

DOCKET NO. 2009-0048

CA-RIR-8

Ref: MPU-RT-100, pages 9 – 16.

- a. The Company is contending that a 3-year average for electricity price per kwh should be used if the requested adjustment clause is not approved by the Commission. Please provide a copy of the analysis performed by the Company to support its assertion regarding the reasonableness of the three-year average.

RESPONSE:

Based on its analysis of the data provided to the Consumer Advocate for the three historic years, the Company believes such data provides sufficient evidence to support the the reasonableness of the three-year average.

- b. If not already addressed in its response to part a., please provide a copy of the Company's assessment of each of the years used in its averaging process to assess whether those years are representative of normalized levels or whether those values might be too high or low for purposes of developing a normalized value.

RESPONSE:

See response to part "a" above.

- c. The Company provided a discussion of how a 3-year average should be used for fuel, but indicates that the price

**MOLOKAI PUBLIC UTILITIES, INC.'S RESPONSES
TO THE DIVISION OF CONSUMER ADVOCACY'S
SUBMISSION OF REBUTTAL INFORMATION REQUESTS**

DOCKET NO. 2009-0048

CA-RIR-8 (cont.)

used by the Consumer Advocate is reasonable. Please provide a copy of the analysis to support the Company's assertion.

RESPONSE:

The Company made no separate analysis. The Company only made a visual review of the data provided to the Consumer Advocate related to the fuel purchases and price.

SPONSOR:

Robert O'Brien

CERTIFICATE OF SERVICE

I (we) hereby certify that copies of the foregoing document were duly served on the following parties, by having said copies delivered as set forth below:

MR. DEAN NISHINA Executive Director Department of Commerce and Consumer Affairs Division of Consumer Advocacy 335 Merchant Street, Suite 326 Honolulu, Hawaii 96813	3 copies Hand Deliver
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MARGERY S. BRONSTER, ESQ. JEANNETTE H. CASTAGNETTI, ESQ. Bronster Hoshibata 2300 Pauahi Tower 1003 Bishop Street Honolulu, HI 96813	1 copy Hand Deliver
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Attorneys for the COUNTY OF MAUI

WILLIAM W. MILKS, ESQ. Law Offices of William W. Milks ASB Tower, Suite 977 1001 Bishop Street Honolulu, HI 96813	1 copy Hand Deliver
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Attorney for WEST MOLOKAI ASSOCIATION

ANDREW V. BEAMAN, ESQ. Chun Kerr Dodd Beaman & Wong, LLLP Topa Financial Center, Fort Street Tower 745 Fort Street, 9 th Floor Honolulu, HI 96813	1 copy Hand Deliver
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Attorney for MOLOKAI PROPERTIES LIMITED

DATED: Honolulu, Hawai'i, February 24, 2010.



MICHAEL H. LAU, ESQ.
YVONNE Y. IZU, ESQ.

Morihara Lau & Fong LLP
Attorneys for MOLOKAI PUBLIC UTILITIES, INC.